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STATEMENT OF THE ACCOUNTING PRINCIPLES BOARD

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Financial Statements Restated For General Price-Level Changes

CONTENTS

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FOREWORD

This Statement sets forth the conclusions and recommendations of the Accounting Principles Board concerning general price-level information. Presentation of such information is not mandatory. The principles and procedures on which general price-level information is based have been tested (see paragraph 16 of the Statement) and have been discussed with representatives of organizations that have responsibilities which involve financial reporting.

INTRODUCTION

1. This Statement explains the effects on business enterprises and their financial statements of changes in the general purchasing power of money, describes the basic nature of financial statements restated for general price-level changes ("general price-level financial statements"), and gives general guidance on how to prepare and present these financial statements.[1]

2. In Chapter 9A of *Accounting Research Bulletin No. 43* (issued in 1953), the committee on accounting procedure stated that it "... gives its full support to the use of supplementary financial schedules, explanations or footnotes by which management may explain the need for retention of earnings [in the face of rising general price levels]." This section of *ARB 43* continues in "full force and effect without change" according to *APB*

[1] A more detailed discussion of general price-level financial statements is found in *Accounting Research Study No. 6*, "Reporting the Financial Effects of Price-Level Changes," by the Staff of the Accounting Research Division, American Institute of Certified Public Accountants, 1963. (Accounting research studies are not statements of this Board or of the Institute but are published for the purpose of stimulating discussion on important accounting matters.)

Opinion 6. The present Statement is an expansion of the ideas in Chapter 9A of *ARB 43*; it provides recommendations on how to prepare and present supplementary information restated for general price-level changes.

3. General price-level financial statements take into account changes in the general purchasing power of money. These changes are now ignored in preparing financial statements in the United States. In conventional financial statements the individual asset, liability, stockholders' equity, revenue, expense, gain, and loss items are stated in terms of dollars of the period in which these items originated. Conventional financial statements may be referred to as "historical-dollar financial statements."

4. The basic difference between general price-level and historical-dollar financial statements is the unit of measure used in the statements. In general price-level statements the unit of measure is defined in terms of a single specified amount of purchasing power — the general purchasing power of the dollar at a specified date. Thus, dollars which represent the same amount of general purchasing power are used in general price-level statements whereas dollars which represent diverse amounts of general purchasing power are used in historical-dollar statements.

5. The cost principle on which historical-dollar statements are based is also the basis of general price-level statements. In general, amounts shown at historical cost in historical-dollar statements are shown at historical cost restated for changes in the general purchasing power of the dollar in general price-level statements. The amount may be restated, but it still represents cost and not a current value. The process of restating historical costs in terms of a specified amount of general purchasing power does not introduce any factors other than general price-level changes. The amounts shown in general price-level financial statements are not intended to represent appraisal values, replacement costs, or any other measure of current value. (See Appendix D for further discussion.)

6. Changes in the general purchasing power of money have an impact on almost every aspect of economic affairs, including such diverse matters as investment, wage negotiation, pricing policy, international trade, and government fiscal policy. The effects of changes in the general purchasing power of money on economic data expressed in monetary terms are widely recognized, and economic data for the economy as a whole are commonly restated to eliminate these effects. General price-level financial statements should prove useful to investors, creditors, management, employees, government officials, and others who are concerned with the economic affairs of business enterprises.

BACKGROUND INFORMATION

Changes in the General Purchasing Power of Money

7. The general purchasing power of the dollar — its command over goods and services in general — varies, often significantly, from time to time. Changes in the general purchasing power of money are known as inflation or deflation. During inflation, the general purchasing power of money declines as the general level of prices of goods and services rises. During deflation, the general purchasing power of money increases as the general level of prices falls. The general purchasing power of money and the general price level are reciprocals.

8. A change in the general price level is a composite effect of changes in the prices of individual goods and services. The prices of all goods and services do not change at the same rate or in the same direction. Some rise while others fall, some rise or fall more rapidly than others, and some remain unchanged. This Statement is concerned with changes in the general purchasing power of money and therefore with changes in the *general* price level, not with changes in the relationships between *specific* prices of individual goods and services. (See Appendix D.)

Measuring General Price-Level Changes

9. Changes in the general price level are measured by the use of index numbers. The most comprehensive indicator of the general price level in the United States is the Gross National Product Implicit Price Deflator (GNP Deflator), issued quarterly by the Office of Business Economics of the Department of Commerce. The Consumer Price Index which is issued monthly by the Bureau of Labor Statistics of the Department of Labor is less inclusive than the GNP Deflator. Because of differences in coverage and in the system of weights used, the two indexes may change at different rates in the short run. Over the long run, however, the two indexes have changed at approximately the same rate.

10. Published general price-level indexes in the United States are stated in terms of a base year (currently 1958 for the GNP Deflator). Index numbers for current periods are expressed as percentages of the base year general price level. Through the use of indexes, amounts stated in terms of dollars at any point in time can be restated in terms of dollars of the base year of the index, dollars of the current year, or dollars of any year that is chosen. For example, the cost of land purchased for \$10,000 in 1964 (GNP Deflator index = 108.9) can be restated as 9,183 dollars of 1958 general purchasing power (index = 100.0) by multiplying the cost by 100.0/108.9, or as 11,185 dollars of 1968 general purchasing power (index = 121.8) by multiplying the cost by 121.8/108.9. In all three cases the cost is the same but the units in which it is expressed are different. Similarly, the general level of prices in 1968 may be stated as 121.8% of the general level of prices in 1958, or the general level of prices in 1958 may be stated as $\frac{100}{121.8} = 82.1\%$ of the general level of prices in 1968.

11. General price levels seldom remain stable for long periods. For example, 35 of the 39 year to year changes in the United States GNP Deflator from 1929 to 1968 exceeded 1%. Ten of these changes were more than 5% and four were more than 10%. (See Appendix A.)

12. Although general price levels can and have moved both up and down, inflation has been the general rule throughout the world for the last 30 years. Some countries have experienced slowly rising prices while others have experienced rapidly rising prices. The rise in the general price level in the United States, as measured by the GNP Deflator, was approximately 22% during the period 1958-1968 or a compound annual rate of 2% in contrast to approximately 130% in the preceding 20 years or a compound annual rate of about 4%. Price indexes in Brazil rose about 3,000% from 1958 to 1966. Inflation in China, Greece, and Hungary just before and after World War II was even more spectacular. General price-level increases of 25% to 50% per year have occurred recently in several countries.

Effects of General Price-Level Changes

13. The effects of inflation or deflation on a business enterprise and on its financial statements depend on (1) the amount of change in the general price level and (2) the composition of the assets and liabilities of the enterprise.

14. *Effects of Rate of Inflation.* Large changes in the general price level obviously have a greater effect than small changes. It is perhaps less obvious that moderate changes in the general price level may also significantly affect business enterprises and their financial statements. The nature of the income statement and the cumulative effect over time of moderate changes in the general price level tend to magnify the effects of changes in the general price level. Thus, in the income statement, differences which represent relatively small percentage changes in comparatively large revenue and expense items may be substantial in relation to net income. Also, if assets are held for a number of years the effect of inflation or deflation depends on the cumulative inflation or deflation since acquisition of the assets. The general price-level change in any one year is only a part of the total effect. Thus, the 3.8% inflation experienced in 1968 is only a small part of the total inflation effect on fixed assets appearing in 1968 statements. For fixed assets purchased in 1950, for example, there is a cumulative inflation effect of 54% (total inflation measured by the GNP Deflator from 1950 to

1968) on undepreciated cost and depreciation expense in 1968 general price-level financial statements. Furthermore, the effects of inflation compound over a period of years (for example, a constant 2% rate of inflation results in a 22% cumulative general price-level change in ten years and a 49% cumulative general price-level change in 20 years). Nonrecognition of the effects of inflation may therefore have a substantial effect on financial statement representations of assets held over long periods (such as investments, and property, plant, and equipment), even though the amount of inflation each year has been relatively small.

15. *Effects of Different Kinds of Assets and Liabilities.* The holders of some types of assets and liabilities are affected differently by inflation and deflation than are the holders of other types of assets and liabilities. For example, holders of cash and similar assets always lose general purchasing power during a period of inflation, but holders of other assets may or may not lose general purchasing power during inflation. The effects on holders of different types of assets and liabilities are discussed more fully in paragraphs 17 to 23.

16. *Determining Combined Effects.* The effects of general price-level changes on a business enterprise and its financial statements therefore cannot be approximated by a simple adjustment. If users attempt to adjust for general price-level changes on an uninformed basis, they are likelv to draw misleading inferences. The effects of general price-level changes can only be determined by comprehensive restatement of the items which comprise its financial statements. The need for comprehensive restatement was illustrated by a field test of general price-level restatement procedures.[2] For many companies in the test, net income was a smaller numerical amount on the general price-level basis than on the historical-dollar basis for the same period; for other companies it was a larger amount. The percentage differences between the amounts of net income for each company on the two bases varied widely, even with the relatively mild inflation in the United States in recent years.

[2] See Paul Rosenfield, "Accounting for Inflation—A Field Test," *The Journal of Accountancy,* June 1969, pp. 45 to 50.

Monetary and Nonmonetary Assets and Liabilities and General Price-Level Gains and Losses

17. During inflation, a given amount of money can be used to buy progressively fewer goods and services in general. Consequently, holders of money lose general purchasing power as a result of inflation. This loss may be called a "general price-level loss."[3] General price-level losses also occur when certain other assets, mainly contractual claims to fixed amounts of money, are held during a period of inflation. The amount of money expected to be received represents a diminishing amount of general purchasing power simply as a result of the inflation. Similarly, a fixed amount of money payable in the future becomes less burdensome in a time of inflation because it is payable in dollars of reduced general purchasing power; those who owe money during inflation therefore have "general price-level gains." The effects of deflation are the opposite of the effects of inflation on holders of assets and liabilities of the type described in this paragraph.

18. Assets and liabilities are called "monetary" for purposes of general price-level accounting if their amounts are fixed by contract or otherwise in terms of numbers of dollars regardless of changes in specific prices or in the general price level. Holders of monetary assets and liabilities gain or lose general purchasing power during inflation or deflation simply as a result of general price-level changes.[4] Examples of monetary assets and liabilities are cash, accounts and notes receivable in cash, and accounts and notes payable in cash. General price-level gains and losses on monetary items cannot be measured in historical-dollar financial statements and are not now reported.

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[3] Gains and losses of this type are often called "purchasing power gains and losses" in discussions of general price-level accounting (for example, see *Accounting Research Study No. 6*, page 137), but the Board prefers the term "general price-level gains and losses" to distinguish them from other gains and losses of general purchasing power experienced by business enterprises, such as those discussed in paragraph 19 of the Statement.

[4] See *Accounting Research Study No. 6*, page 137, for discussion of monetary and nonmonetary items in general price-level accounting. Assets and liabilities may be classified as "monetary" for purposes other than general price-level accounting. Classification of assets and liabilities as monetary for general price-level accounting purposes should be based on the fact that holders gain or lose general purchasing power simply as a result of general price-level changes rather than on criteria developed for other purposes.

19. Assets and liabilities other than monetary items are called "nonmonetary" for general price-level accounting purposes. Examples of nonmonetary items are inventories, investments in common stocks, property, plant, and equipment, deferred charges which represent costs expended in the past, advances received on sales contracts, liabilities for rent collected in advance, deferred credits which represent reductions of prior expense, and common stock. Holders of nonmonetary items do not gain or lose general purchasing power simply as a result of general price-level changes. If the price of a nonmonetary item changes at the same rate as the general price level, no gain or loss of general purchasing power results. Holders of nonmonetary assets and liabilities gain or lose general purchasing power if the specific price of the item owned or owed rises or falls faster or slower than the change in the general price level. Holders of nonmonetary assets and liabilities also gain or lose general purchasing power if the specific price of a nonmonetary item remains constant while the general price level changes. Gains and losses on nonmonetary items differ from general price-level gains and losses on monetary items because they are the joint result of changes in the structure of prices (the relationships between specific prices) and changes in the general level of prices, and not the result simply of changes in the general price level. (See Appendix B for additional examples of monetary and nonmonetary items.)

20. Historical-dollar financial statements report gains and losses on nonmonetary items, usually when the items are sold, and corresponding gains and losses should also be reported in general price-level financial statements in the same time period as in the historical-dollar statements. The amounts reported as gains or losses may differ, however, because the costs and proceeds in the general price-level statements are restated for changes in the general price level. Thus, if the market price of an asset increases more than the increase in the general price level and the asset is sold, in historical-dollar statements the entire market price increase is shown as a gain in the period of sale but only the excess of the market price increase over the cost restated for the increase in the general price level is shown

as a gain in the general price-level statements. The timing of reporting these gains and losses is the same in historical-dollar and general price-level financial statements but the amounts differ because of the effect of the change in the general price level. Similarly, if the asset is used instead of sold, depreciation or amortization deducted from the related revenue is reported in the same time periods in both historical-dollar and general price-level statements, although the amounts differ because of the restatement made in the general price-level statements. The Internal Revenue Code does not recognize general price-level restatements for tax purposes and income taxes are therefore assessed on the basis of historical-dollar amounts rather than amounts restated for general price-level changes. The income tax expense presented in general price-level statements is not computed in direct relationship to specific amounts of gains or losses on the statements or to the amount of net income before taxes. A few members of the Board believe that federal income tax should be allocated in general price-level statements to achieve a more direct relationship between the tax and various elements presented in these statements.

21. The fact that the market price of an item does not change over long periods of time does not in itself indicate that the item is monetary. Thus gold is nonmonetary because its price can fluctuate. The fact that the price did not fluctuate for over 30 years does not make gold a monetary item. When general price levels moved upward, the holder of gold lost general purchasing power because the price of his asset did not move as much as other prices, and not simply as a result of general price-level changes. Foreign currency, accounts receivable and payable in foreign currency, and similar items are also nonmonetary. The price of foreign currency, that is, the foreign exchange rate, can change. Therefore, the holder of foreign currency items does not gain or lose general purchasing power simply as a result of general price-level changes. If the exchange rate does not change when the general price level changes because of international controls or other factors, the price of foreign currency is rising or falling at a different rate than the general price level. The effect on the holder is the joint result of a change in

the structure of prices and a change in the general level of prices, and therefore the items are nonmonetary. Even though foreign currency items are nonmonetary, they may be stated at the current foreign exchange rate in general price-level financial statements. Under these circumstances they would be treated as nonmonetary items carried at current market value.

22. A different viewpoint than that expressed in paragraph 21, held by a few Board members, is that foreign currency, accounts receivable and payable in foreign currency, and similar foreign currency items are similar to domestic monetary items. Foreign currency items should therefore be stated directly at the current (closing) foreign exchange rate in the general price-level balance sheet. The effect on the income of the holder of foreign currency items is the joint result of both the change in the foreign exchange rate and the change in the domestic general price level, and the items are therefore complex. Both effects are measurable, however, and should be disclosed separately. In the general price-level income statement, the effect of the general price-level change should be reported as a general price-level gain or loss on monetary items and the effect of the change in the exchange rate should be reported as a foreign exchange gain or loss. If the foreign exchange rate does not change, only a general price-level gain or loss should be reported.

23. A few assets and liabilities have characteristics of both monetary and nonmonetary items. For example, debentures held as an investment may have both a market price and fixed interest and principal payments. The fixed interest and principal payments do not change when prices change and therefore holders have general price-level gains or losses during inflation or deflation with respect to this characteristic. On the other hand, the market price of the debentures can and does change, and this feature does not yield general price-level gains or losses. Similarly, convertible debt owed is fixed in amount when considered as debt, but may be converted into capital stock. The fixed amount of debt owed is a monetary liability, which gives rise to general price-level gains or losses when general price levels change. The conversion feature is nonmonetary in nature, and does not give rise to gains or losses of general purchasing

power simply as a result of general price-level changes. (See paragraph 34.)

General Price-Level Restatements

24. Economic data are commonly restated to eliminate the effects of changes in the general purchasing power of money. In the President's Economic Reports, National Income data of the United States, for example, have been restated in "constant" 1947-1949 dollars and "constant" 1954 dollars and are now expressed in "constant" 1958 dollars. The restatement procedures necessary for preparing general price-level financial statements are similar to those employed in restating other economic data. Some companies now use general price-level statements to report on their operations in countries in which the currency has suffered severe loss of general purchasing power.

RECOMMENDATIONS

25. The Board believes that general price-level financial statements or pertinent information extracted from them present useful information not available from basic historical-dollar financial statements. General price-level information may be presented in addition to the basic historical-dollar financial statements, but general price-level financial statements should not be presented as the basic statements. The Board believes that general price-level information is not required at this time for fair presentation of financial position and results of operations in conformity with generally accepted accounting principles in the United States.

26. The Board recognizes that the degree of inflation or deflation in an economy may become so great that conventional statements lose much of their significance and general price-level statements clearly become more meaningful, and that some countries have experienced this degree of inflation in recent years.[5] The Board concludes that general price-level statements reported in the local currency of those countries are in that respect in conformity with accounting principles generally ac-

[5] Although the Board believes that this conclusion is obvious with respect to some countries, it has not determined the degree of inflation or deflation at which general price-level statements clearly become more meaningful.

cepted in the United States, and that they preferably should be presented as the basic foreign currency financial statements of companies operating in those countries when the statements are intended for readers in the United States.[6]

Restatement of Financial Statements

27. General guidelines for preparing general price-level statements, with explanatory comments, are set forth in paragraphs 28 to 46. More specific procedures are illustrated in Appendix C to this Statement.

28. *The same accounting principles used in preparing historical-dollar financial statements should be used in preparing general price-level financial statements except that changes in the general purchasing power of the dollar are recognized in general price-level financial statements.* General price-level financial statements are an extension of and not a departure from the "historical cost" basis of accounting. Many amounts in general price-level statements, however, are different from amounts in the historical-dollar statements because of the effects of changing the unit of measure.

29. *An index of the general price level, not an index of the price of a specific type of goods or services, should be used to prepare general price-level financial statements.* Price indexes vary widely in their scope; some measure changes in the prices of a relatively limited group of goods and services, such as construction costs or retail food prices in a specific city, while others measure changes in the prices of a broad group of goods and services in a whole economy. The purpose of the general price-level restatement procedures is to restate historical-dollar financial statements for changes in the general purchasing power of the dollar, and this purpose can only be accomplished by using a general price-level index.

30. Indexes which approximate changes in the general price level are now available for most countries. As noted in para-

[6] This paragraph applies only to statements prepared in the currency of the country in which the operations reported on are conducted. Only conventional statements of foreign subsidiaries should be used to prepare historical-dollar consolidated statements.

graph 9, the GNP Deflator is the most comprehensive indicator of the general price level in the United States. Consequently, it should normally be used to prepare general price-level statements in U.S. dollars.

31. The GNP Deflator is issued on a quarterly basis. The deflator for the last quarter of a year can ordinarily be used to approximate the index as of the end of the year. The Bureau of Labor Statistics Consumer Price Index has the practical advantage of being issued on a monthly basis. The consumer price index may therefore be used to approximate the GNP Deflator unless the two indexes deviate significantly.

32. *General price-level financial statements should be presented in terms of the general purchasing power of the dollar at the latest balance sheet date.* The Board has selected current general purchasing power as the basis for presentation because it believes that financial statements in "current dollars" are more relevant and more easily understood than those employing the general purchasing power of any other period. Current economic actions must take place in terms of current dollars, and restating items in current dollars expresses them in the context of current action.

33. *Monetary and nonmonetary items should be distinguished for the purpose of preparing general price-level financial statements.* Monetary items are stated in terms of current general purchasing power in historical-dollar statements. General price-level gains and losses arise from holding monetary items. On the other hand, nonmonetary items are generally stated in terms of the general purchasing power of the dollar at the time they were acquired. Holding nonmonetary items does not give rise to general price-level gains and losses. Distinguishing monetary and nonmonetary items therefore permits (1) restatement of nonmonetary items in terms of current general purchasing power and (2) recognition of general price-level gains and losses on monetary items which are not recognized under historical-dollar accounting. Paragraphs 17 to 23 give criteria for distinguishing monetary and nonmonetary items for general price-level accounting purposes.

34. Assets and liabilities that have both monetary and nonmonetary characteristics (see paragraph 23) should be classified as monetary or nonmonetary based on the purpose for which they are held, usually evidenced by their treatment in historical-dollar accounting. Thus, carrying debentures at acquisition cost (perhaps adjusted to lower of cost and market) and classifying them as marketable securities provides evidence that market price may be important and the debentures may be nonmonetary. On the other hand, classifying debentures held as a long-term investment and amortizing premium or discount is evidence that the debentures are held for the fixed principal and interest and therefore are monetary assets. Similarly, convertible debt is usually treated as straight debt and therefore is usually a monetary liability.

35. *The amounts of nonmonetary items should be restated to dollars of current general purchasing power at the end of the period.* Nonmonetary items are typically stated in historical-dollar financial statements in terms of the general purchasing power of the dollar at the dates of the originating transactions. They should be restated by means of the general price index to dollars of current general purchasing power at the end of the period. Restatement of nonmonetary items does not introduce current values or replacement costs. For example, restatement of the cost of land that cost $100,000 in 1958 to $123,500 in 1968 statements does not imply that the market price of the land is $123,500 in 1968. Restatement merely presents the *cost* in a unit which represents the general purchasing power of the dollar at the end of 1968.

36. Nonmonetary items are sometimes already stated in historical-dollar financial statements in dollars of current general purchasing power, for example, inventory purchased near the end of the fiscal period or assets carried at current market price. The fact that the amount of an item is not changed in restatement does not necessarily identify it as a monetary item on which general price-level gains and losses should be computed.

37. Some nonmonetary items such as inventories are stated at the lower of cost and market in historical-dollar financial statements. These items should also be stated at the lower of cost

and market in general price-level financial statements. Market may sometimes be below restated cost even though it is not below historical-dollar cost, and application of the cost or market rule will therefore sometimes result in a write-down to market in general price-level statements even though no write-down was required in the historical-dollar statements.

38. *Monetary assets and liabilities in the historical-dollar balance sheet are stated in dollars of current general purchasing power; consequently, they should appear in current general price-level statements at the same amounts.* The fact that the amounts of monetary assets and liabilities are the same in general price-level and historical-dollar statements should not obscure the fact that general price-level gains and losses result from holding them during a period of general price-level change (see paragraphs 17 and 18). Monetary assets and liabilities which appear in financial statements of prior periods presented for comparative purposes are updated to dollars of current general purchasing power by the "roll-forward" procedure described in paragraph 44.

39. *The amounts of income statement items should be restated to dollars of current general purchasing power at the end of the period.* Revenue and expenses are typically stated in historical-dollar statements in terms of the general purchasing power of the dollar at the dates of the originating transactions and should be restated by means of the general price index to dollars of current general purchasing power at the end of the period. The components of gains and losses (costs and proceeds) are also stated in terms of historical dollars and should be restated. All revenue, expenses, gains, and losses recognized under historical-dollar accounting are recognized in the same time period under general price-level accounting, but their amounts are different in the case of items that are recorded in noncurrent dollars, such as depreciation, amortization, and cost of goods sold. Transactions that give rise to gains in historical-dollar financial statements may even give rise to losses in general price-level financial statements and vice versa. Income tax amounts in general price-level statements are based on income taxes reflected in historical-dollar statements and are not computed in direct

relationship to the income before taxes on the general price-level statements.

40. *General price-level gains and losses should be calculated by means of the general price index and included in current net income.* General price-level gains and losses on monetary items described in paragraphs 17 and 18 should be calculated by restating the opening balances and transactions in the accounts for monetary assets and liabilities to dollars of general purchasing power at the end of the period and comparing the resulting restated balances at the end of the period with the actual balances at the end of the period. (See Appendix C.)

41. General price-level gains and losses on monetary items arise from changes in the general price level, and are not related to subsequent events such as the receipt or payment of money. Consequently, the Board has concluded that these gains and losses should be recognized as part of the net income of the period in which the general price level changes.

42. A different viewpoint than that expressed in paragraph 41, held by a Board member, is that all of a monetary gain should not be recognized in the period of general price-level increase. Under this view, a portion of the gain on net monetary liabilities in a period of general price-level increase should be deferred to future periods as a reduction of the cost of nonmonetary assets, since the liabilities represent a source of funds for the financing of these assets. The proponent of this view believes that the gain from holding net monetary liabilities during inflation is not realized until the assets acquired from the funds borrowed are sold or consumed in operations.[7] The Board does not agree with this view, however, because it believes that the gain accrues during the period of the general price-level increase and is unrelated to the cost of nonmonetary assets.

43. *General price-level gains and losses should be reported as a separate item in general price-level income statements.* General price-level gains and losses on monetary items are not part of the revenue and expenses reported in historical-dollar financial

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[7] For further discussion of this view see Marvin M. Deupree, "Accounting for Gains and Losses in Purchasing Power of Monetary Items" in *Accounting Research Study No. 6*, pp. 153-165.

statements. They should be separately identified in the general price-level statements. General price-level gains may, however, be offset against general price-level losses and only a single figure representing net general price-level gain or loss for the period need be reported.

44. *General price-level financial statements of earlier periods should be updated to dollars of the general purchasing power at the end of each subsequent period for which they are presented as comparative information.* Statements of an earlier period are updated by multiplying each item by the ratio of the current general price level to the general price level of the earlier period. This "rolling forward" of earlier statements could cause confusion and convey the erroneous impression that previously reported information has been changed in substance rather than merely updated in terms of a later unit of measure.[8] Consequently, comparative general price-level financial statements and related financial information should be described in a way that makes clear that the general price-level statements of prior periods represent previously reported information updated to dollars of current general purchasing power to provide comparability with the current general price-level statements. (See paragraph 48, point f.)

45. *Restatement of financial statements of foreign branches or subsidiaries of U.S. companies for inclusion in combined or consolidated financial statements stated in terms of U.S. dollars should be based on an index of the general level of prices in the United States.* General price-level financial statements stated in terms of U.S. dollars use a unit of measure that represents the general purchasing power of the U.S. dollar at a specified date. An index of changes in the general purchasing power of the U.S. dollar should therefore be used to restate the financial statements of a company and its combined or consolidated foreign branches and subsidiaries. Financial statements of foreign branches or

[8] The "roll-forward" process results in stating financial statement items at different amounts than they were stated before being "rolled forward." The differences are not gains or losses but are merely differences between the same items measured in two different units of measure. If a cost stated at 100 dollars of general purchasing power current at the beginning of the year is "rolled forward" to 105 dollars of general purchasing power current at the end of the year, the difference of 5 is not a gain. It is similar, for example, to the difference of 2 between 1 yard and 3 feet.

subsidiaries to be combined or consolidated with the financial statements of their United States parent company should first be translated into U.S. dollars using presently accepted methods and then restated for changes in the general purchasing power of the U.S. dollar.

46. *All general price-level information presented should be based on complete general price-level calculations.* Financial statements in which only some of the items, such as depreciation, have been restated disclose only part of the effects of changing general price levels on an enterprise. Partially restated financial statements and information based on them are likely to be misleading and should not be presented. General price-level information should therefore be based on complete calculations, although it need not be presented in the same detail as the historical-dollar financial statements. If any general price-level information is given, at least sales, net general price-level gains and losses on monetary items, extraordinary items, net income, and common stockholders' equity should be disclosed.

Presentation of General Price-Level Financial Information

47. Presentation of general price-level financial information as a supplement to the basic historical-dollar financial statements should be designed to promote clarity and minimize possible confusion. Because the two types of data are prepared on different bases, presentations of general price-level financial information should generally encourage comparisons with other general price-level data rather than with historical-dollar data. If general price-level financial statements are presented in their entirety, they preferably should be presented in separate schedules, not in columns parallel to the historical-dollar statements. Financial information extracted from general price-level statements (see paragraph 46) may be presented in either chart or narrative form, and may emphasize ratios and percentages instead of or in addition to dollar amounts.

48. The basis of preparation of general price-level information and what it purports to show should be clearly explained in the notes to the general price-level financial statements or other ap-

propriate places. The explanation should include the following points:

a. The general price-level statements (or information) are supplementary to the basic historical-dollar financial statements [except as provided in paragraph 26].
b. All amounts shown in general price-level statements are stated in terms of units of the same general purchasing power by use of an index of changes in the general purchasing power of the dollar.
c. The general price-level gain or loss in the general price-level statements indicates the effects of inflation (or deflation) on the company's net holdings of monetary assets and liabilities. The company gains or loses general purchasing power as a result of holding these assets and liabilities during a period of inflation (deflation).
d. In all other respects, the same generally accepted accounting principles used in the preparation of historical-dollar statements are used in the preparation of general price-level statements (or information).
e. The amounts shown in the general price-level statements do not purport to represent appraised value, replacement cost, or any other measure of the current value of assets or the prices at which transactions would take place currently.
f. The general price-level statements (or information) of prior years presented for comparative purposes have been updated to current dollars. This restatement of prior years' general price-level statements is required to make them comparable with current information. It does not change the prior periods' statements in any way except to update the amounts to dollars of current general purchasing power.

49. Disclosure involving the following items should also be made:

a. The difference between the balance of retained earnings at the end of the preceding year in beginning-of-the-year dollars and at the beginning of the year in end-of-the-year dollars, which arises in the roll-forward process discussed in paragraph 44, should be explained somewhat as follows:

Retained earnings at the beginning of the year:

Restated to general purchasing power at the beginning of the year	xxx
Amount required to update to general purchasing power at the end of the year . . .	xxx
Restated to general purchasing power at the end of the year	xxx

b. The fact should be disclosed that when assets are used or sold, federal income taxes are based on cost before restatement for general price-level changes because inflation is not recognized in the Internal Revenue Code.

The Statement entitled "Financial Statements Restated for General Price-Level Changes" was adopted unanimously by the eighteen members of the Board.

NOTE

Statements of the Accounting Principles Board present the conclusions of at least two-thirds of the members of the Board, which is the senior technical body of the Institute authorized to issue pronouncements on accounting principles. This Statement is not an "Opinion of the Accounting Principles Board" covered by action of the Council of the Institute in the Special Bulletin, Disclosure of Departures from Opinions of the Accounting Principles Board, *October 1964.*

Accounting Principles Board (1969)

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APPENDIX A

Gross National Product Implicit Price Deflator

Annual Averages 1929-1968
Quarterly Averages 1947-1968

Annual Averages

Year	Deflator (1958 = 100)	Percent Increase (Decrease) From Previous Year
1929	50.6	
1930	49.3	(2.6)
1931	44.8	(9.1)
1932	40.3	(10.0)
1933	39.3	(2.5)
1934	42.2	7.4
1935	42.6	.9
1936	42.7	.2
1937	44.5	4.2
1938	43.9	(1.3)
1939	43.2	(1.6)
1940	43.9	1.6
1941	47.2	7.5
1942	53.0	12.3
1943	56.8	7.2
1944	58.2	2.5
1945	59.7	2.6
1946	66.7	11.7
1947	74.6	11.8
1948	79.6	6.7
1949	79.1	(.6)
1950	80.2	1.4
1951	85.6	6.7
1952	87.5	2.2
1953	88.3	.9
1954	89.6	1.5
1955	90.9	1.5
1956	94.0	3.4
1957	97.5	3.7
1958	100.0	2.6
1959	101.6	1.6
1960	103.3	1.7
1961	104.6	1.3

Annual Averages—*Continued*

Year	Deflator (1958 = 100)	Percent Increase (Decrease) From Previous Year
1962	105.7	1.1
1963	107.1	1.3
1964	108.9	1.7
1965	110.9	1.8
1966	113.9	2.7
1967	117.3	3.0
1968	121.8	3.8

Quarterly Averages

Year	Quarter	Deflator
1947	1	73.0
	2	73.7
	3	74.9
	4	77.0
1948	1	78.2
	2	79.2
	3	80.6
	4	80.3
1949	1	79.7
	2	79.1
	3	78.8
	4	78.9
1950	1	78.3
	2	79.0
	3	80.8
	4	82.3

Quarterly Averages—*Continued*

Year	Quarter	Deflator
1951	1	84.8
	2	85.4
	3	85.6
	4	86.7
1952	1	86.7
	2	87.1
	3	87.7
	4	88.3
1953	1	88.4
	2	88.3
	3	88.4
	4	88.4
1954	1	89.5
	2	89.6
	3	89.5
	4	89.8
1955	1	90.2
	2	90.6
	3	91.0
	4	91.6
1956	1	92.6
	2	93.4
	3	94.6
	4	95.4
1957	1	96.4
	2	97.1
	3	98.0
	4	98.5
1958	1	99.3
	2	99.7
	3	100.1
	4	100.6
1959	1	101.1
	2	101.4
	3	101.9
	4	102.1

Quarterly Averages—*Continued*

Year	Quarter	Deflator
1960	1	102.6
	2	103.0
	3	103.4
	4	104.0
1961	1	104.3
	2	104.5
	3	104.5
	4	105.1
1962	1	105.4
	2	105.5
	3	105.8
	4	106.2
1963	1	106.6
	2	107.0
	3	107.1
	4	107.8
1964	1	108.3
	2	108.4
	3	109.0
	4	109.6
1965	1	110.1
	2	110.7
	3	111.0
	4	111.6
1966	1	112.6
	2	113.5
	3	114.4
	4	115.3
1967	1	116.0
	2	116.6
	3	117.7
	4	118.9
1968	1	120.0
	2	121.2
	3	122.3
	4	123.5

Source: United States Department of Commerce, *Survey of Current Business*, issued monthly. Quarterly figures are available only since 1947. The deflators for 1929 to 1964 were recapitulated on pages 52 and 53 of the August 1965 issue of the *Survey*.

APPENDIX B

Monetary and Nonmonetary Items

Paragraphs 17 to 23 of the Statement present criteria for distinguishing between monetary and nonmonetary items for general price-level accounting purposes and give examples of each kind of item. This appendix provides additional examples, with an explanation of the reason for classification when needed.

	Monetary	Non-monetary
Assets		
Cash on hand and demand bank deposits (domestic currency)	X	
Time deposits (domestic currency)	X	
Foreign currency on hand and claims to foreign currency See discussion in Statement, paragraph 21.		X
Marketable securities		
Stocks		X
Bonds Bonds held as a short-term investment may be held for price speculation. If so, they are nonmonetary. If the bonds are held primarily for the fixed income characteristic, they are monetary.	(see discussion)	
Accounts and notes receivable	X	
Allowance for doubtful accounts and notes receivable	X	
Inventories produced under fixed price contracts accounted for at the contract price These items are in effect receivables of a fixed amount.	X	
Other inventories		X
Advances to employees	X	

	Monetary	Non-monetary
Prepaid insurance, taxes, advertising, rent . . . . These represent an amount of services for which expenditures have been made and which will be amortized to expense in the future. In financial statements they are substantially the same kind of item as fixed assets.		X
Prepaid interest . . . . Related to notes payable, a monetary item.	X	
Receivables under capitalized financing leases	X	
Long-term receivables	X	
Refundable deposits	X	
Advances to unconsolidated subsidiaries . . . . . If there is no expectation that the advances will ever be collected, they are in effect additional investments and are nonmonetary.	X	
Investments in unconsolidated subsidiaries . . . If an investment is carried at cost, it is nonmonetary. If, an investment is carried on the equity basis, the statements of the subsidiary should be restated for general price-level changes (in accordance with paragraph 45 of the Statement for foreign affiliates) and the equity method should then be applied.	(see discussion)	
Pension, sinking, and other funds . . . . Depends on composition of the fund — bonds are generally monetary and stocks nonmonetary.	(see discussion)	
Investments in convertible bonds . . . . If the bond is held for price speculation or with expectation of converting into common stock the investment is nonmonetary. If the bond is held for the fixed principal and interest, it is monetary.	(see discussion)	

	Monetary	Nonmonetary
Property, plant, and equipment		X
Allowance for depreciation		X
Cash surrender value of life insurance	X	
Advances paid on purchase contracts The items to be received are nonmonetary.		X
Unamortized discount on bonds payable Related to bonds payable, a monetary item.	X	
Deferred charges for income taxes — deferred method A cost deferred as an expense of future periods is nonmonetary.		X
Other deferred charges which represent costs incurred to be charged against future income		X
Patents, trademarks, licenses, formulas		X
Goodwill		X
Other intangible assets		X
Liabilities		
Accounts and notes payable	X	
Accrued expenses payable (salaries, wages, etc.) Similar to accounts payable, amount is fixed.	X	
Cash dividends payable	X	
Debts payable in foreign currency See Statement, paragraph 21.		X
Refundable deposits	X	
Advances received on sales contracts The obligation will be satisfied by delivery of goods that are nonmonetary.		X

	Monetary	Non-monetary
Accrued losses on firm purchase commitments	X	
Bonds payable	X	
Convertible bonds payable Treated as monetary debt until converted.	X	
Obligations under capitalized leases	X	
Other long-term debt	X	
Deferred taxes – deferred method Cost savings deferred as a reduction of expenses of future periods.		X
Deferred investment credits		X
Accrued pension cost	X	
Reserve for self-insurance Although reserve for self-insurance is nonmonetary, it may be stated in the same amount in both the historical-dollar and general price-level statements if the adequacy of the reserve in terms of current costs has been determined at year end for the historical-dollar statements.		X
Deferred income		X
Provision for guarantees Provision for guarantees is nonmonetary because it is a liability to provide goods or services. It may be stated in the same amount in both the historical-dollar and general price-level statements if the adequacy of the provision in terms of current costs has been determined at year end for the historical-dollar statements.		X

	Monetary	Non-monetary
Accrued vacation pay	(see discussion)	

Accrued vacation pay is monetary if it is based on a fixed contract. It is nonmonetary if it is payable based on wage or salary rates that may change after the balance sheet date.

Owners' Equity

	Monetary	Non-monetary
Minority interest		X
Preferred stock		X

Classifying preferred stock as nonmonetary is based on the fact that the amount accounted for is the proceeds received when the stock was issued. The proceeds must be restated to present them in terms of the general purchasing power of the dollar at the balance sheet date.

The amount of a nonconvertible callable preferred stock should not exceed the call price in the general price-level balance sheet. The periodic change in the excess of the restated proceeds over the call price, if any, should not be included in net income, but should be added to net income to determine net income to common stockholders in the same manner as preferred dividends are deducted to determine net income to common stockholders.

A different viewpoint held by some Board members is that preferred stock is a monetary item and that general price-level gains or losses from preferred stock outstanding should be included in the computation of net income.

	Monetary	Non-monetary
Common stock		X
Additional paid-in capital		X
Retained earnings	(see discussion)	

Retained earnings is a residual and need not be classified as either monetary or nonmonetary.

APPENDIX C

Procedures to Prepare Financial Statements Restated for General Price-Level Changes

1. This appendix illustrates procedures to apply the general guidelines discussed in paragraphs 28 to 46 of this Statement. Procedures for restating historical-dollar financial statements for general price-level changes are described and illustrated for two years, 1967 and 1968. Restating the statements for 1967 illustrates the procedures for the first year of restatement; restating the 1968 statements illustrates the procedures for all subsequent years. The procedures for the first year a company restates its financial statements are more time consuming than those for subsequent years.

2. Financial statements used in this illustration contain a variety of items designed to demonstrate various facets of the restatement technique. Indexes of the general price-level changes which occurred in the United States in recent years are used. For convenience, the general assumptions used in the illustration are summarized below:

a. The XYZ Company was formed in 1957, ten years before the year for which its statements are first restated.

b. All significant costs of the year-end finished goods inventory, carried at FIFO, were incurred in the last quarter of the year; costs incurred before the last quarter of the year are assumed to be not material.

c. Year-end balances of raw materials and parts and supplies inventories, carried at FIFO, were acquired fairly evenly throughout the year.

d. Market value of inventories is above the restated cost of inventories, and the market price of inventories to be delivered is below the restated amount of deferred income.

e. Depreciation is computed on the straight-line basis. A full year's depreciation is taken in the year of acquisition, and no depreciation is taken in the year of sale. Depreciable assets have a ten-year life and no salvage value.

f. Sales, purchases, and selling and administrative expenses (other than depreciation, amortization of prepaid expenses, and deferred income realized) have taken place fairly evenly throughout the year, and federal income taxes accrue ratably throughout the year.

g. Interest expense is included in selling and administrative expenses.

3. To perform restatement procedures, a company needs (1) its historical-dollar financial statements for the year, (2) index numbers, and (3) conversion factors derived from the index numbers, as described in the following paragraphs.

4. The historical-dollar financial statements needed for the first year for which statements are to be restated are balance sheets at the beginning and end of the year and the statements of income, retained earnings, and other changes in owners' equity for the year. For each subsequent year, only the balance sheet at the end of the year and the statements of income, retained earnings, and other changes in owners' equity for the year are needed. The historical-dollar balance sheet at the beginning of the first year is restated to determine the restated amount of retained earnings at the beginning of the first year. In the illustration for the 1967 restatement, the historical-dollar balance sheets appear on page 46 and the historical-dollar statement of income and retained earnings appears on page 47. For the 1968 restatement, the historical-dollar balance sheet appears on page 59 and the historical-dollar statement of income and retained earnings appears on page 60.

5. The Gross National Product Implicit Price Deflator is used in the illustration as the index of changes in the general price level.[1] This index is available on both a quarterly and annual average basis. Indexes are needed for the average and the quar-

[1] See paragraph 30 of the Statement.

ters for each year since the inception of the company or 1945[2], whichever is later. The annual average index may be used for any year in which its use would produce results not materially different from those which would be produced by using quarterly indexes. The index at the end of a year may be approximated by using the average for the last quarter of the year. To simplify the illustration, quarterly indexes are used only for 1967 and 1968. Indexes used in the 1967 restatement appear on page 45. Indexes used in the 1968 restatement appear on page 58. (Also see Appendix A.)

6. Conversion factors used in restatement are computed from general price-level index numbers by dividing the index number for the current balance sheet date by each of the other index numbers. To illustrate, assume that 1957 and 1960 expenditures are to be restated to dollars of December 1968 general purchasing power. The following GNP Deflators (general price-level index numbers) are applicable:

Average for 1957	97.5
Average for 1960	103.3
Fourth quarter 1968	123.5

To compute the conversion factors for restatement to dollars of general purchasing power current at December 31, 1968, divide the index number for the fourth quarter of 1968 by each of the other index numbers:

$$1957\text{: } 123.5 \div 97.5 = 1.267$$
$$1960\text{: } 123.5 \div 103.3 = 1.196$$

[2] The precision of the measure of change in the general price level by any series of index numbers decreases over time because new commodities are continuously introduced and others disappear. No method has been devised to measure the percentage change in the general price level between two periods in which the bulk of commodities in either period are unique. A large portion of the dollar amount of current exchange transactions involves goods and services that originated in discoveries and innovations that grew out of the war effort (World War II) and postwar developments. Consequently, comparison of current prices with prices during and prior to World War II would probably not be reliable enough for accounting purposes because of the dissimilarity of goods and services exchanged then and now. A cutoff date is therefore indicated. The year 1945 is probably the earliest point that offers reasonable comparability of goods and services with later periods. All assets acquired, liabilities incurred, or owners' equity accumulated prior to 1945 should generally be treated as if they had originated during 1945.

To restate a nonmonetary item purchased in 1957, for example, its cost in 1957 dollars is multiplied by 1.267:

Cost in 1957 dollars	$1,500
	x 1.267
Cost in dollars current at December 31, 1968 . .	$1,900

The cost of $1,500 in 1957 dollars is equal to a cost of $1,900 in December 31, 1968 dollars. The cost is not changed; it is merely stated in a larger number of a smaller unit of measure. Conversion factors for the 1967 restatement are computed on page 45. Conversion factors for the 1968 restatement are computed on page 58.

7. The exhibits and worksheets which comprise the illustration are presented together on pages 43 to 67. Restatement procedures are discussed in eight steps on pages 34 to 40. Each step is first described in general terms and then keyed to the two years in the illustration in two columns below the general description.

General Steps to Prepare General Price-Level Financial Statements

STEP 1: *Identify monetary and nonmonetary assets and liabilities.*

The nature of each asset and liability item must be determined inasmuch as restatement procedures for monetary items are different from those for nonmonetary items as discussed in paragraphs 35-38 of the Statement. Paragraphs 17-23 of the Statement discuss the difference between monetary and nonmonetary items and give examples of each. Additional examples are given in Appendix B.

1967 Restatement

STEP 1: Monetary items in the December 31, 1966 and 1967 balance sheets on page 46 are:
- Cash
- Receivables
- Current liabilities
- Long-term debt

Nonmonetary items are:
- Marketable securities
- Raw materials
- Finished goods
- Parts and supplies
- Prepaid expenses
- Property, plant, and equipment
- Accumulated depreciation
- Deferred income—payments received in advance*
- Capital stock
- Additional paid-in capital
- Retained earnings

*Deferred income—payments received in advance is a nonmonetary liability because it represents an obligation to deliver nonmonetary assets—the company's products.

1968 Restatement

STEP 1: Monetary and nonmonetary items in the December 31, 1968 balance sheet on page 59 are the same as in the December 31, 1966 and 1967 balance sheets.

STEP 2: *Analyze all nonmonetary items in the balance sheet of the current year (and the prior year for the first year of restatement) to determine when the component money amounts originated.*

Schedule the data by years, and by quarters whenever significant general price-level changes occurred during a year. If no significant general price-level changes occurred during a year, or if acquisitions were spread fairly evenly throughout a year, assume the items were acquired when the average general price level for the year was in effect. All balances accumulated prior to 1945 may be treated as if acquired in 1945. See Step 3 for treatment of special problems in restating inventories.

Retained earnings need not be analyzed. Retained earnings in the restated balance sheet at the beginning of the first year for which general price-level restatements are prepared can be computed as the balancing amount. This avoids the impractical alternative of restating all prior financial statements since the inception of the company. Retained earnings in subsequent restated balance sheets is determined from the restated statements of income and retained earnings.

1967 Restatement

STEP 2: Analysis of raw materials, finished goods, and parts and supplies inventories is discussed in notes 3 and 4 on page 46. Marketable securities, capital stock, and additional paid-in capital are analyzed in columns 3, 5, and 7 on page 48. Prepaid expenses, property, plant, and equipment, accumulated depreciation, and deferred income are analyzed in columns 3 to 6 on pages 49 to 52.

1968 Restatement

STEP 2: Much of the analysis needed for the 1968 restatement has been prepared for the 1967 restatement and merely needs to be updated. Analysis of raw materials, finished goods, and parts and supplies inventories, capital stock, and additional paid-in capital is discussed in notes 4, 5, and 6 on page 59. Prepaid expenses, property, plant, and equipment, accumulated depreciation, and deferred income are analyzed in columns 3 to 6 on pages 61 to 64.

STEP 3: *Analyze all revenue, expense, gain, and loss items in the income statement of the current year, and all dividends and other changes in retained earnings during the year, to determine when the amounts originated that ultimately resulted in the charges and credits in the statements of income and retained earnings.*

A wide range in degree of difficulty is likely to be encountered in restating inventories and cost of goods sold to dollars of current general purchasing power. Raw materials priced on a first-in, first-out basis may already be in dollars of current general purchasing power and need no restatement. If turnover is rapid and spread fairly evenly throughout the year, purchases may be in dollars whose general purchasing power can be approximated by using the average general price level for the year. Restatement of inventories of work in process and finished goods, however, can be quite complicated and time consuming. Weighted average or last-in, first-out pricing increases the amount of detail.

Shortcuts to the restatement of inventories and purchases often produce results that do not differ enough from amounts derived by detailed computation to warrant the additional effort. For example, costs of inventories based on weighted average include, in part, every expenditure ever made to buy or produce them. A shortcut would be to assume that the beginning inventory had all been acquired in one turnover period. In the case of beginning LIFO inventories, using the assumption that different layers were acquired each year when the average general price level was in effect for that year will usually approximate the results of a detailed computation, purchase by purchase. Elements of overhead costs included in work in process and finished goods inventories can usually be restated from dollars of average general purchasing power for the year when overhead was applied to that segment of the inventory. Depreciation is the overhead cost element most likely to require extensive analysis, but only when the effect would be material.

Many revenue and expense items are, of course, recognized in the accounts at approximately the same time that the receipts and expenditures occurred (for example, salaries). If these items are spread fairly evenly throughout the year, it can be assumed that the receipts and expenditures all occurred when the average general price level for the year was in effect. When peak and slack periods occur during the year, and the general price level changes significantly between periods, revenue and expense items in this category should be determined for each calendar quarter.

The restatement of revenue and expense items should, of course, reconcile with the restatement of the related balance sheet accounts, and they can be restated as part of the same computation. For example, the beginning balance of merchandise inventory plus purchases, both stated in current dollars, should equal the sum of the cost of sales and the ending balance of merchandise inventory, also stated in current dollars.

1967 Restatement

STEP 3: Sales, cost of sales, selling and administrative expenses, and loss on sale of equipment are analyzed in column 1 on pages 53 and 54. Depreciation is analyzed in column 4 on page 51. Amortization of prepaid expenses is analyzed in column 5 on page 49. Deferred income realized is analyzed in column 5 on page 52. Federal income taxes and dividends are analyzed on page 47.

1968 Restatement

STEP 3: Sales, cost of sales, selling and administrative expenses, gain on sale of equipment, and gain or loss on sale of marketable securities are analyzed in column 1 on pages 65 and 66. Depreciation is analyzed in column 4 on page 63. Amortization of prepaid expenses is analyzed in column 5 on page 61. Deferred income realized is analyzed in column 5 on page 64. Federal income taxes and dividends are analyzed on page 60.

STEP 4: *Restate the nonmonetary items.*

Multiply the component amounts of nonmonetary items in the balance sheet of the current year (and the prior year for the first year of restatement) and in the statement of income and retained earnings for the current year by the conversion factors applicable to the components. The restated amount of each nonmonetary item is the sum of the restated amounts of its components.

1967 Restatement

STEP 4. Restatement of nonmonetary items is demonstrated on the pages in which the nonmonetary items are analyzed in accordance with Steps 2 and 3.

1968 Restatement

STEP 4: Restatement of nonmonetary items is demonstrated on the pages in which the nonmonetary items are analyzed in accordance with Steps 2 and 3. Components which originated in 1967 or earlier generally are restated by merely "rolling forward" their restated amounts from the worksheets for the 1967 restatement.

STEP 5: *Restate the monetary items in the balance sheet at the beginning of the first year.*

Monetary items in the balance sheet at the beginning of the first year for which statements are restated are stated in prior year dollars and are each restated to dollars of current general purchasing power by the conversion factor applicable to the end of the prior year. Monetary items in the balance sheet at the end of each year for which statements are restated are stated in dollars of current general purchasing power and need no restatement.

1967 Restatement	*1968 Restatement*
STEP 5: Restatement of the monetary items in the balance sheet at December 31, 1966 is discussed in note 1 on page 46.	STEP 5: (Not applicable after the first year statements are restated.)

STEP 6: *Apply the "cost or market" rule after restatement to the items to which it applies before restatement.*

To determine that marketable securities and inventories are not stated above market in the restated statements, and that current nonmonetary liabilities are not stated below market, the restated amounts are compared with market and adjusted if necessary.

1967 Restatement	*1968 Restatement*
STEP 6: Market is assumed to be higher than restated marketable securities and inventories and lower than restated deferred income.	STEP 6: Market is assumed to be higher than restated inventories and lower than restated deferred income.

STEP 7: *Compute the general price-level gain or loss for the current year.*

The general price-level gain or loss which arises from holding net balance sheet monetary items during inflation or deflation appears in the general price-level statements but does not appear in the historical-dollar statements. The format used to prepare a statement of source and application of net balance sheet monetary items is a convenient device to use in calculating the general price-level gain or loss. In this calculation the items which cause changes in the monetary items are analyzed and the net balance of the monetary items if there were no gain or loss is determined. A comparison of this net balance with the actual net balance of monetary items at the balance sheet date determines the gain or loss.

1967 Restatement	*1968 Restatement*
STEP 7: The general price-level gain for 1967 is computed on page 55.	STEP 7: The general price-level gain for 1968 is computed on page 67.

STEP 8: *"Roll forward" the restated statements of the prior year to dollars of current general purchasing power.*

Financial statements of the prior year which were restated to dollars current at the end of the prior year are restated to dollars current at the end of the current year simply by multiplying each amount by the conversion factor applicable to the end of the prior year. This "rolling forward" serves two purposes: (1) it provides the amount of retained earnings at the end of the prior year in current dollars for the current year statement of retained earnings, and (2) it provides the prior year statements in current dollars for use as comparative statements.

1967 Restatement	*1968 Restatement*
STEP 8: (Not applicable for the first year statements are restated.)	STEP 8: The restated balance sheet at the end of 1967 is "rolled forward" in columns 1 and 2 on page 59. The restated statement of income and retained earnings for 1967 is "rolled forward" in columns 1 and 2 on page 60.

Exhibits and Worksheets Illustrating Restatement

1967 Restatement—XYZ Company

1968 Restatement—XYZ Company

EXHIBIT A

XYZ Company
General Price-Level Balance Sheet
December 31, 1967

ASSETS	General Price-Level Basis (Restated to 12/31/67)
Current assets:	
Cash	$(67) 1,700,000
Marketable securities, at cost	1,654,000
Receivables (net)	5,050,000
Inventories, at the lower of cost and market on a first-in, first-out basis:	
Raw materials	2,849,000
Finished goods	2,560,000
Parts and supplies	578,000
Prepaid expenses	49,000
Total current assets	14,440,000
Property, plant, and equipment, at cost	29,580,000
Less: Accumulated depreciation	21,156,000
	8,424,000
	$(67)22,864,000

LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities	$(67) 4,770,000
Deferred income—payments received in advance	101,000
Long-term debt	5,000,000
Stockholders' equity:	
Capital stock — common	2,109,000
Additional paid-in capital	3,785,000
Retained earnings	7,099,000
Total stockholders' equity	12,993,000
	$(67)22,864,000

EXHIBIT B

XYZ Company
General Price-Level Statement of Income and Retained Earnings
Year Ended December 31, 1967

	General Price-Level Basis (Restated to 12/31/67)
Sales	$(67)30,424,000
Operating expenses:	
Cost of sales	23,232,000
Depreciation	2,616,000
Selling and administrative expenses	2,615,000
	28,463,000
Operating profit	1,961,000
Loss on sale of equipment	(12,000)
General price-level gain	138,000
	126,000
Income before federal income taxes	2,087,000
Federal income taxes	923,000
Net income	1,164,000
Retained earnings, December 31, 1966	6,137,000
	7,301,000
Less: Dividends paid	202,000
Retained earnings, December 31, 1967	$(67) 7,099,000

12/31/67
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XYZ COMPANY
General Price-Level Restatement—1967
Gross National Product Implicit Price Deflators and Conversion Factors

Year	*Quarter*	*GNP deflators*	*Conversion factors 1967 (4th q.) = 1.000*
Annual average			
1957		97.5	1.219
1958		100.0	1.189
1959		101.6	1.170
1960		103.3	1.151
1961		104.6	1.137
1962		105.7	1.125
1963		107.1	1.110
1964		108.9	1.092
1965		110.9	1.072
1966		113.9	1.044
1967		117.3	1.014
Quarterly			
1966	4th	115.3	1.031
1967	1st	116.0	1.025
	2nd	116.6	1.020
	3rd	117.7	1.010
	4th	118.9	1.000

Source: *Survey of Current Business,* U.S. Department of Commerce, Office of Business Economics (Deflators of 1957-1964 from issue of August, 1965, page 53)

12/31/67
R-2

XYZ COMPANY
General Price-Level Restatement—1967
Working Balance Sheets—12/31/66 and 12/31/67

	12/31/66 Historical	12/31/66 Conversion factor or source	12/31/66 Restated to 12/31/67 $'s	12/31/67 Historical	12/31/67 Conversion factor or source	12/31/67 Restated to 12/31/67 $'s
Assets						
Cash	810,000	(1) 1.031	835,110	1,700,000	(2)	1,700,000
Marketable securities (at cost)	1,470,000	R-4	1,623,340	1,500,000	R-4	1,654,090
Receivable—net	1,900,000	(1) 1.031	1,958,900	5,050,000	(2)	5,050,000
Inventories						
Raw materials (FIFO)	2,680,000	(3) 1.044	2,797,920	2,810,000	(3) 1.014	2,849,340
Finished goods (FIFO)	2,450,000	(4) 1.031	2,525,950	2,560,000	(4) 1.000	2,560,000
Parts and supplies (FIFO)	700,000	(3) 1.044	730,800	570,000	(3) 1.014	577,980
Prepaid expenses	50,000	R-5	52,720	48,000	R-5	49,261
Total current assets	10,060,000		10,524,740	14,238,000		14,440,671
Property, plant, and equipment (at cost)	25,400,000	R-6	29,154,200	25,900,000	R-6	29,579,550
Less: Accumulated depreciation	16,350,000	R-7	19,016,680	18,260,000	R-7	21,156,145
	9,050,000		10,137,520	7,640,000		8,423,405
	19,110,000		20,662,260	21,878,000		22,864,076
Liabilities						
Current liabilities	2,950,000	(1) 1.031	3,041,450	4,770,000	(2)	4,770,000
Deferred income—payments received in advance	120,000	R-8	125,280	100,000	R-8	100,900
Long-term debt	5,300,000	(1) 1.031	5,464,300	5,000,000	(2)	5,000,000
	8,370,000		8,631,030	9,870,000		9,870,900
Stockholders' Equity						
Capital stock—common	1,760,000	R-4	2,109,120	1,760,000	R-4	2,109,120
Additional paid-in capital	3,150,000	R-4	3,784,550	3,150,000	R-4	3,784,550
Retained earnings	5,830,000	(5)	6,137,560	7,098,000	R-3	7,099,506
	10,740,000		12,031,230	12,008,000		12,993,176
	19,110,000		20,662,260	21,878,000		22,864,076

Notes

(1) 12/31/66 monetary items before restatement are stated in 12/31/66 $'s. The conversion factor for the end of 1966 is used to restate them to 12/31/67 $'s.

(2) 12/31/67 monetary items need no restatement because they are stated in 12/31/67 $'s.

(3) Year-end balance assumed acquired fairly evenly throughout the year.

(4) Assumed that all significant costs of year-end finished goods were incurred in last quarter of the year. Costs incurred before last quarter of the year (e.g., depreciation) assumed not material.

(5) 12/31/66 retained earnings restated in the amount which makes the balance sheet balance.

XYZ COMPANY
General Price-Level Restatement—1967
Working Statement of Income and Retained Earnings

12/31/67
R-3

	Historical	Conversion factor or source	Restated to 12/31/67 $'s
Sales	30,000,000	R-9	30,424,220
Operating expenses:			
Cost of sales (except depreciation)	22,735,000	R-9	23,232,180
Depreciation	2,310,000	R-7	2,616,635
Selling and administrative expenses	2,577,000	R-10	2,614,704
	27,622,000		28,463,519
Operating profit	2,378,000		1,960,701
Loss of sale of equipment	–0–	R-10	(11,730)
General price-level gain	–0–	R-11	137,715
	–0–		125,985
Income before federal income taxes	2,378,000		2,086,686
Federal income taxes	910,000	(1) 1.014	922,740
Net income	1,468,000		1,163,946
Retained earnings—12/31/66	5,830,000	R-2	6,137,560
	7,298,000		7,301,506
Dividends paid			
June 1967	100,000	1.020	102,000
December 1967	100,000	1.000	100,000
	200,000		202,000
Retained earnings—12/31/67	7,098,000		7,099,506

(1) Assumed accrued ratably throughout the year

XYZ COMPANY 12/31/67

General Price-Level Restatement—1967 R-4

Analysis of Marketable Securities, Capital Stock, and Additional Paid-in Capital

Year acquired	Factor to restate to 12/31/67 $'s	Marketable securities Historical	Marketable securities Restated to 12/31/67 $'s	Capital stock Historical	Capital stock Restated to 12/31/67 $'s	Additional paid-in capital Historical	Additional paid-in capital Restated to 12/31/67 $'s
1957	1.219			1,000,000	1,219,000	2,000,000	2,438,000
1958	1.189			500,000	594,500	750,000	891,750
1959	1.170						
1960	1.151						
1961	1.137	500,000	568,500	260,000	295,620	400,000	454,800
1962	1.125						
1963	1.110						
1964	1.092	750,000	819,000				
1965	1.072	220,000	235,840				
1966	1.044						
Balances 12/31/66		1,470,000	1,623,340	1,760,000	2,109,120	3,150,000	3,784,550
1967							
1st q.	1.025	30,000	30,750				
2nd q.	1.020						
3rd q.	1.010						
4th q.	1.000						
average	1.014						
Balances 12/31/67		1,500,000	1,654,090	1,760,000	2,109,120	3,150,000	3,784,550

Note: All marketable securities assumed to be nonmonetary

XYZ COMPANY

General Price-Level Restatement—1967 12/31/67

Analysis of Prepaid Expenses R-5

Year acquired	Factor to restate to 12/31/67 $'s	Historical: Balance 12/31/66	Historical: Additions	Historical: Amortization	Historical: Balance 12/31/67	Restated to 12/31/67 $'s: Balance 12/31/66	Restated: Additions	Restated: Amortization	Restated: Balance 12/31/67
1964	1.092	5,000		5,000		5,460		5,460	
1965	1.072	10,000		7,000	3,000	10,720		7,504	3,216
1966	1.044	35,000		25,000	10,000	36,540		26,100	10,440
1967									
1st q.	1.025		25,000	8,000	17,000		25,625	8,200	17,425
2nd q.	1.020								
3rd q.	1.010		20,000	2,000	18,000		20,200	2,020	18,180
4th q.	1.000								
		50,000	45,000	47,000	48,000	52,720	45,825	49,284	49,261

XYZ COMPANY

General Price-Level Restatement—1967

Analysis of Property, Plant, and Equipment

12/31/67

R-6

Year acquired	Factor to restate to 12/31/67 $'s	Historical: Balance 12/31/66	Historical: Additions	Historical: Retirements	Historical: Balance 12/31/67	Restated to 12/31/67 $'s: Balance 12/31/66	Restated: Additions	Restated: Retirements	Restated: Balance 12/31/67
1957	1.219	3,000,000		200,000	2,800,000	3,657,000		243,800	3,413,200
1958	1.189	3,000,000		100,000	2,900,000	3,567,000		118,900	3,448,100
1959	1.170	4,000,000		100,000	3,900,000	4,680,000		117,000	4,563,000
1960	1.151	3,600,000			3,600,000	4,143,600			4,143,600
1961	1.137	800,000			800,000	909,600			909,600
1962	1.125	5,000,000			5,000,000	5,625,000			5,625,000
1963	1.110	3,000,000			3,000,000	3,330,000			3,330,000
1964	1.092	2,000,000		100,000	1,900,000	2,184,000		109,200	2,074,800
1965	1.072	500,000			500,000	536,000			536,000
1966	1.044	500,000			500,000	522,000			522,000
1967									
1st q.	1.025		250,000		250,000		256,250		256,250
2nd q.	1.020		300,000		300,000		306,000		306,000
3rd q.	1.010		200,000		200,000		202,000		202,000
4th q.	1.000		250,000		250,000		250,000		250,000
		25,400,000	1,000,000	500,000	25,900,000	29,154,200	1,014,250	588,900	29,579,550

XYZ COMPANY
General Price-Level Restatement—1967
Analysis of Accumulated Depreciation

12/31/67
R-7

Year assets acquired	Factor to restate to 12/31/67 $'s	Historical: Balance 12/31/66	Historical: Depreciation (1)	Historical: Retirements	Historical: Balance 12/31/67	Restated to 12/31/67 $'s: Balance 12/31/66	Restated: Depreciation (1)	Restated: Retirements	Restated: Balance 12/31/67
1957	1.219	3,000,000		200,000	2,800,000	3,657,000		243,800	3,413,200
1958	1.189	2,700,000	290,000	90,000	2,900,000	3,210,300	344,810	107,010	3,448,100
1959	1.170	3,200,000	390,000	80,000	3,510,000	3,744,000	456,300	93,600	4,106,700
1960	1.151	2,520,000	360,000		2,880,000	2,900,520	414,360		3,314,880
1961	1.137	480,000	80,000		560,000	545,760	90,960		636,720
1962	1.125	2,500,000	500,000		3,000,000	2,812,500	562,500		3,375,000
1963	1.110	1,200,000	300,000		1,500,000	1,332,000	333,000		1,665,000
1964	1.092	600,000	190,000	30,000	760,000	655,200	207,480	32,760	829,920
1965	1.072	100,000	50,000		150,000	107,200	53,600		160,800
1966	1.044	50,000	50,000		100,000	52,200	52,200		104,400
1967									
1st q.	1.025		25,000		25,000		25,625		25,625
2nd q.	1.020		30,000		30,000		30,600		30,600
3rd q.	1.010		20,000		20,000		20,200		20,200
4th q.	1.000		25,000		25,000		25,000		25,000
		16,350,000	2,310,000	400,000	18,260,000	19,016,680	2,616,635	477,170	21,156,145

(1) Depreciation basis: Straight line
10 year life
No salvage value
Full year's depreciation in year of acquisition
No depreciation in year of disposition

12/31/67

R-8

XYZ COMPANY

General Price-Level Restatement—1967

Analysis of Deferred Income

Year acquired	Factor to restate to 12/31/67 $'s	Historical: Balance 12/31/66	Historical: Additions	Historical: Realized	Historical: Balance 12/31/67	Restated to 12/31/67 $'s: Balance 12/31/66	Restated: Additions	Restated: Realized	Restated: Balance 12/31/67
1966	1.044	120,000		120,000		125,280		125,280	
1967									
1st q.	1.025		40,000	40,000			41,000	41,000	
2nd q.	1.020		50,000	30,000	20,000		51,000	30,600	20,400
3rd q.	1.010		50,000		50,000		50,500		50,500
4th q.	1.000		30,000		30,000		30,000		30,000
		120,000	170,000	190,000	100,000	125,280	172,500	196,880	100,900

XYZ COMPANY
General Price-Level Restatement—1967 12/31/67
Analysis of Sales and Cost of Sales R-9

	Historical	Conversion factor or source	Restated to 12/31/67 $'s
Sales			
Current sales	29,810,000	(1) 1.014	30,227,340
Deferred sales realized	190,000	R-8	196,880
Total sales	30,000,000		30,424,220
Cost of sales (except depreciation)			
Inventories 12/31/66			
Raw materials	2,680,000	R-2	2,797,920
Finished goods	2,450,000	R-2	2,525,950
Parts and supplies	700,000	R-2	730,800
Purchases during 1967	22,845,000	(1) 1.014	23,164,830
	28,675,000		29,219,500
Inventories 12/31/67			
Raw materials	2,810,000	R-2	2,849,340
Finished goods	2,560,000	R-2	2,560,000
Parts and supplies	570,000	R-2	577,980
	5,940,000		5,987,320
	22,735,000		23,232,180

(1) Spread fairly evenly throughout the year

XYZ COMPANY
General Price-Level Restatement—1967 12/31/67
Analysis of Expenses R-10

	Historical	Conversion factor or source	Restated to 12/31/67 $'s
Selling and administrative expenses			
Amortization of prepaid expenses	47,000	R-5	49,284
Other	2,530,000	(1) 1.014	2,565,420
	2,577,000		2,614,704

(1) Spread fairly throughout the year

	Historical	Conversion factor or source	Restated to 12/31/67 $'s
Loss on sale of equipment			
Cost	500,000	R-6	588,900
Accumulated depreciation	400,000	R-7	477,170
	100,000		111,730
Proceeds, December, 1967	100,000	1.000	100,000
Loss	–0–		11,730

XYZ COMPANY
General Price-Level Restatement—1967 12/31/67
General Price-Level Gain or Loss R-11

Net monetary items	Source	12/31/66 Historical	12/31/66 Restated to 12/31/67 $'s	12/31/67 Historical (stated in 12/31/67 $'s)
Cash	R-2	810,000	835,110	1,700,000
Receivables	R-2	1,900,000	1,958,900	5,050,000
Current liabilities	R-2	(2,950,000)	(3,041,450)	(4,770,000)
Long-term debt	R-2	(5,300,000)	(5,464,300)	(5,000,000)
		(5,540,000)	(5,711,740)	(3,020,000)

General price-level gain or loss	Historical	Source	Restated to 12/31/67 $'s
Net monetary items—12/31/66	(5,540,000)	as above	(5,711,740)
Add:			
Current sales	29,810,000	R-9	30,227,340
Additions to deferred income	170,000	R-8	172,500
Proceeds from sale of equipment	100,000	R-10	100,000
	24,540,000		24,788,100
Deduct:			
Purchases	22,845,000	R-9	23,164,830
Selling and administrative expenses—other	2,530,000	R-10	2,565,420
Federal income taxes	910,000	R-3	922,740
Dividends	200,000	R-3	202,000
Purchase of marketable securities	30,000	R-4	30,750
Purchases of property, plant, and equipment	1,000,000	R-6	1,014,250
Additions to prepaid expenses	45,000	R-5	45,825
	27,560,000		27,945,815
Net monetary items—historical—12/31/67 (as above)	(3,020,000)		
Net monetary items—restated—12/31/67 (if there were no gain)			(3,157,715)
Net monetary items—12/31/67 (as above)			(3,020,000)
General price-level gain			137,715

EXHIBIT A

XYZ Company
Comparative General Price-Level Balance Sheets
December 31, 1968 and December 31, 1967

	General Price-Level Basis (Restated to 12/31/68)	
ASSETS	Dec. 31, 1968	Dec. 31, 1967
Current assets:		
Cash	$(68) 2,120,000	$(68) 1,766,000
Marketable securities, at cost		1,719,000
Receivables (net)	6,170,000	5,247,000
Inventories, at the lower of cost and market on a first-in, first-out basis:		
Raw materials	2,575,000	2,960,000
Finished goods	2,390,000	2,660,000
Parts and supplies	621,000	601,000
Prepaid expenses	43,000	51,000
Total current assets	13,919,000	15,004,000
Property, plant, and equipment, at cost	31,208,000	30,733,000
Less: Accumulated depreciation	24,253,000	21,981,000
	6,955,000	8,752,000
	$(68) 20,874,000	$(68) 23,756,000

LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities	$(68) 2,521,000	$(68) 4,957,000
Deferred income — payments received in advance	51,000	105,000
Long-term debt	4,700,000	5,195,000
Stockholders' equity:		
Capital stock—common	2,191,000	2,191,000
Additional paid-in capital	3,932,000	3,932,000
Retained earnings	7,479,000	7,376,000
Total stockholders' equity	13,602,000	13,499,000
	$(68) 20,874,000	$(68) 23,756,000

EXHIBIT B

XYZ Company
Comparative General Price-Level Statements of Income and Retained Earnings Years Ended December 31, 1968 and December 31, 1967

	General Price-Level Basis (Restated to 12/31/68)	
	1968	1967
Sales	$(68)27,381,000	$(68)31,611,000
Operating expenses:		
Cost of sales	21,379,000	24,138,000
Depreciation	2,408,000	2,719,000
Selling and administrative expenses	2,658,000	2,717,000
	26,445,000	29,574,000
Operating profit	936,000	2,037,000
Gain (or loss) on sale of equipment	41,000	(12,000)
Loss on sale of securities	(118,000)	
General price-level gain	85,000	143,000
	8,000	131,000
Income before federal income taxes	944,000	2,168,000
Federal income taxes	639,000	959,000
Net income	305,000	1,209,000
Retained earnings, beginning of year	7,376,000	6,377,000
	7,681,000	7,586,000
Less: Dividends paid	202,000	210,000
Retained earnings, end of year	$(68) 7,479,000	$(68) 7,376,000

12/31/68
R-1

XYZ COMPANY
General Price-Level Restatement—1968
Gross National Product Implicit Price Deflators and Conversion Factors

Year	*Quarter*	*GNP deflators*	*Conversion factors 1968 (4th q.) = 1.000*
Annual average			
1957		97.5	1.267
1958		100.0	1.235
1959		101.6	1.216
1960		103.3	1.196
1961		104.6	1.181
1962		105.7	1.168
1963		107.1	1.153
1964		108.9	1.134
1965		110.9	1.114
1966		113.9	1.084
1967		117.3	1.053
1968		121.8	1.014
Quarterly			
1966	4th	115.3	1.071
1967	1st	116.0	1.065
	2nd	116.6	1.059
	3rd	117.7	1.049
	4th	118.9	1.039
1968	1st	120.0	1.029
	2nd	121.2	1.019
	3rd	122.3	1.010
	4th	123.5	1.000

Source: *Survey of Current Business*, U.S. Department of Commerce, Office of Business Economics

12/31/68
R-2

XYZ COMPANY
General Price-Level Restatement—1968
Working Balance Sheets—12/31/67 and 12/31/68

	12/31/67		12/31/68		
	Restated to 12/31/67 $'s (1)	Restated to 12/31/68 $'s (2)	Historical	Conversion factor or source	Restated to 12/31/68 $'s
Assets					
Cash	1,700,000	1,766,300	2,120,000	(3)	2,120,000
Marketable securities (at cost)	1,654,090	1,718,600			
Receivables—net	5,050,000	5,246,950	6,170,000	(3)	6,170,000
Inventories					
Raw materials (FIFO)	2,849,340	2,960,464	2,540,000	(4) 1.014	2,575,560
Finished goods (FIFO)	2,560,000	2,659,840	2,390,000	(5) 1.000	2,390,000
Parts and supplies (FIFO)	577,980	600,521	612,000	(4) 1.014	620,568
Prepaid expenses	49,261	51,182	42,000	R-4	43,030
Total current assets	14,440,671	15,003,857	13,874,000		13,919,158
Property, plant, and equipment (at cost)	29,579,550	30,733,153	26,400,000	R-5	31,208,277
Less: Accumulated depreciation	21,156,145	21,981,235	20,210,000	R-6	24,253,021
	8,423,405	8,751,918	6,190,000		6,955,256
	22,864,076	23,755,775	20,064,000		20,874,414
Liabilities					
Current liabilities	4,770,000	4,956,030	2,521,000	(3)	2,521,000
Deferred income—payments received in advance	100,900	104,835	50,000	R-7	50,490
Long-term debt	5,000,000	5,195,000	4,700,000	(3)	4,700,000
	9,870,900	10,255,865	7,271,000		7,271,490
Stockholders' Equity					
Capital stock—common	2,109,120	2,191,376	1,760,000	(6)	2,191,376
Additional paid-in capital	3,784,550	3,932,147	3,150,000	(6)	3,932,147
Retained earnings	7,099,506	7,376,387	7,883,000	R-3	7,479,401
	12,993,176	13,499,910	12,793,000		13,602,924
	22,864,076	23,755,775	20,064,000		20,874,414

Notes

(1) From R-2 of 12/31/67

(2) Each item "rolled-forward" from 12/31/67 $'s to 12/31/68 $'s by using conversion factor for the last quarter of 1967—1.039

(3) Monetary items—no restatement needed

(4) Year-end balance assumed acquired fairly evenly throughout the year.

(5) See note 4 in R-2 of 12/31/67

(6) No change in historical balances during 1968. The restated balances in the 12/31/68 balance sheet are therefore the same as the balances in the 12/31/67 balance sheet restated to 12/31/68 $'s in column 2 of this worksheet.

XYZ COMPANY
General Price-Level Restatement—1968
Working Statements of Income and Retained Earnings

12/31/68
R-3

	1967		1968		
	Restated to 12/31/67 $'s (1)	Restated to 12/31/68 $'s (2)	Historical	Conversion factor or source	Restated to 12/31/68 $'s
Sales	30,424,220	31,610,764	27,000,000	R-8	27,381,735
Operating expenses:					
Cost of sales (except depreciation)	23,232,180	24,138,235	20,856,000	R-8	21,379,109
Depreciation	2,616,635	2,718,684	2,070,000	R-6	2,407,937
Selling and administrative expenses	2,614,704	2,716,677	2,620,000	R-9	2,658,412
	28,463,519	29,573,596	25,546,000		26,445,458
Operating profit	1,960,701	2,037,168	1,454,000		936,277
Gain or (loss) on sale of equipment	(11,730)	(12,187)	61,000	R-9	41,354
Gain or (loss) on sale of securities			100,000	R-9	(118,600)
General price-level gain	137,715	143,086	-0-	R-10	84,703
	125,985	130,899	161,000		7,457
Income before federal income taxes	2,086,686	2,168,067	1,615,000		943,734
Federal income taxes	922,740	958,727	630,000	(3) 1.014	638,820
Net income	1,163,946	1,209,340	985,000		304,914
Retained earnings—beginning of year	6,137,560	6,376,925	7,098,000	R-2 (1967, 8)	7,376,387
	7,301,506	7,586,265	8,083,000		7,681,301
Dividends paid					
June 1968	102,000	105,978	100,000	1.019	101,900
December 1968	100,000	103,900	100,000	1.000	100,000
	202,000	209,878	200,000		201,900
Retained earnings—end of year	7,099,506	7,376,387	7,883,000		7,479,401

(1) From R-3 of 12/31/67
(2) Each item "rolled-forward" from 12/31/67 $'s to 12/31/68 $'s by using conversion factor for the last quarter of 1967—1.039
(3) Assumed accrued ratably throughout the year

XYZ COMPANY
General Price-Level Restatement—1968
Analysis of Prepaid Expenses

12/31/68
R-4

		Historical					Restated to 12/31/68 $'s			
Year acquired	Factor to restate 1968 additions	Balance 12/31/67	Additions	Amortization	Balance 12/31/68	Balance 12/31/67 in 12/31/67 $'s (1)	Balance 12/31/67 (2)	Additions	Amortization	Balance 12/31/68
1965		3,000		3,000		3,216	3,341		(3) 3,341	
1966		10,000		8,000	2,000	10,440	10,847		(3) 8,678	2,169
1967										
1st q.		17,000		10,000	7,000	17,425	18,105		(3) 10,650	7,455
3rd q.		18,000		12,000	6,000	18,180	18,889		(3) 12,593	6,296
1968										
3rd q.	1.010		14,000	3,000	11,000			14,140	3,030	11,110
4th q.	1.000		20,000	4,000	16,000			20,000	4,000	16,000
		48,000	34,000	40,000	42,000	49,261	51,182	34,140	42,292	43,030

(1) From R-5 of 12/31/67

(2) Each item restated by factor for 4th quarter 1967—1.039

(3) Restated amortization is same percentage of restated 12/31/67 balance as historical amortization is of historical 12/31/67 balance.

XYZ COMPANY

General Price-Level Restatement—1968 12/31/68

Analysis of Property, Plant, and Equipment R-5

Year acquired	Factor to restate 1968 additions	Historical: Balance 12/31/67	Historical: Additions	Historical: Retirements	Historical: Balance 12/31/68	Balance 12/31/67 in 12/31/67 $'s (1)	Restated to 12/31/68 $'s: Balance 12/31/67 (2)	Restated to 12/31/68 $'s: Additions	Restated to 12/31/68 $'s: Retirements	Restated to 12/31/68 $'s: Balance 12/31/68
1957		2,800,000			2,800,000	3,413,200	3,546,315			3,546,315
1958		2,900,000			2,900,000	3,448,100	3,582,576			3,582,576
1959		3,900,000			3,900,000	4,563,000	4,740,957			4,740,957
1960		3,600,000			3,600,000	4,143,600	4,305,200			4,305,200
1961		800,000			800,000	909,600	945,074			945,074
1962		5,000,000			5,000,000	5,625,000	5,844,375			5,844,375
1963		3,000,000			3,000,000	3,330,000	3,459,870			3,459,870
1964		1,900,000		300,000	1,600,000	2,074,800	2,155,717		(3) 340,376	1,815,341
1965		500,000			500,000	536,000	556,904			556,904
1966		500,000			500,000	522,000	542,358			542,358
1967										
1st q.		250,000			250,000	256,250	266,244			266,244
2nd q.		300,000			300,000	306,000	317,934			317,934
3rd q.		200,000			200,000	202,000	209,878			209,878
4th q.		250,000			250,000	250,000	259,751			259,751
1968										
1st q.	1.029		300,000		300,000			308,700		308,700
2nd q.	1.019		200,000		200,000			203,800		203,800
3rd q.	1.010		300,000		300,000			303,000		303,000
4th q.										
		25,900,000	800,000	300,000	26,400,000	29,579,550	30,733,153	815,500	340,376	31,208,277

(1) From R-6 of 12/31/67

(2) Restated to 12/31/68 $'s by factor for 4th quarter 1967—1.039

(3) Restated retirement amount is same percentage of restated 12/31/67 balance as historical retirement amount is of historical 12/31/67 balance.

XYZ COMPANY
General Price-Level Restatement—1968
Analysis of Accumulated Depreciation

12/31/68
R-6

Year assets acquired	Factor to restate to 12/31/68 $'s	Historical Balance 12/31/67	Historical Depreciation (1)	Historical Retirements	Historical Balance 12/31/68	Balance 12/31/67 in 12/31/67 $'s (2)	Restated to 12/31/68 $'s Balance 12/31/67 (4)	Restated Depreciation (1)	Restated Retirements	Restated Balance 12/31/68
1957		2,800,000			2,800,000	3,413,200	3,546,316			3,546,316
1958		2,900,000			2,900,000	3,448,100	3,582,576			3,582,576
1959		3,510,000	390,000		3,900,000	4,106,700	4,266,861	474,096		4,740,957
1960		2,880,000	360,000		3,240,000	3,314,880	3,444,160	430,520		3,874,680
1961		560,000	80,000		640,000	636,720	661,552	94,507		756,059
1962		3,000,000	500,000		3,500,000	3,375,000	3,506,625	584,437		4,091,062
1963		1,500,000	300,000		1,800,000	1,665,000	1,729,935	345,987		2,075,922
1964		760,000	160,000	120,000	800,000	829,920	862,287	181,534	(3) 136,151	907,670
1965		150,000	50,000		200,000	160,800	167,071	55,690		222,761
1966		100,000	50,000		150,000	104,400	108,472	54,236		162,708
1967										
1st q.		25,000	25,000		50,000	25,625	26,624	26,624		53,248
2nd q.		30,000	30.000		60,000	30,600	31,793	31,793		63,586
3rd q.		20,000	20,000		40,000	20,200	20,988	20,988		41,976
4th q.		25,000	25,000		50,000	25,000	25,975	25,975		51,950
1968										
1st q.	1.029		30,000		30,000			30,870		30,870
2nd q.	1.019		20,000		20,000			20,380		20,380
3rd q.	1.010		30,000		30,000			30,300		30,300
4th q.										
		18,260,000	2,070,000	120,000	20,210,000	21,156,145	21,981,235	2,407,937	136,151	24,253,021

(1) Depreciation basis: Straight line
10 year life
No salvage value
Full year's depreciation in year of acquisition
No depreciation in year of disposition

(2) From R-7 of 12/31/67

(3) Restated accumulated depreciation on assets retired is same percentage of restated 12/31/67 balance as historical accumulated depreciation on retirements is of historical 12/31/67 balance.

(4) Restated to 12/31/68 $'s by factor for 4th quarter 1967—1.039.

12/31/68
R-7

XYZ COMPANY
General Price-Level Restatement—1968
Analysis of Deferred Income

Year acquired	Factor to restate to 12/31/68 $'s	Historical: Balance 12/31/67	Historical: Additions	Historical: Realized	Historical: Balance 12/31/68	Balance 12/31/67 in 12/31/67 $'s (1)	Restated to 12/31/68 $'s: Balance 12/31/67 (2)	Restated to 12/31/68 $'s: Additions	Restated to 12/31/68 $'s: Realized	Restated to 12/31/68 $'s: Balance 12/31/68
1967										
2nd q.		20,000		20,000		20,400	21,196		21,196	
3rd q.		50,000		50,000		50,500	52,469		52,469	
4th q.		30,000		30,000		30,000	31,170		31,170	
1968										
1st q.	1.029		20,000	20,000				20,580	20,580	
2nd q.	1.019		10,000		10,000			10,190		10,190
3rd q.	1.010		30,000		30,000			30,300		30,300
4th q.	1.000		10,000		10,000			10,000		10,000
		100,000	70,000	120,000	50,000	100,900	104,835	71,070	125,415	50,490

(1) From R-8 of 12/31/67
(2) Each item restated by factor for 4th quarter 1967—1.039

XYZ COMPANY
General Price-Level Restatement—1968 12/31/68
Analysis of Sales and Cost of Sales R-8

	Historical	Conversion factor or source	Restated to 12/31/68 $'s
Sales			
Current sales	26,880,000	(1) 1.014	27,256,320
Deferred sales realized	120,000	R-7	125,415
Total sales	27,000,000		27,381,735
Cost of sales (except depreciation)			
Inventories 12/31/67			
Raw materials	2,810,000	R-2 (1967, 8)	2,960,464
Finished goods	2,560,000	R-2 (1967, 8)	2,659,840
Parts and supplies	570,000	R-2 (1967, 8)	600,521
Purchases	20,458,000	(1) 1.014	20,744,412
	26,398,000		26,965,237
Inventories 12/31/68			
Raw materials	2,540,000	R-2	2,575,560
Finished goods	2,390,000	R-2	2,390,000
Parts and supplies	612,000	R-2	620,568
	5,542,000		5,586,128
	20,856,000		21,379,109

(1) Spread fairly evenly throughout the year

XYZ COMPANY
General Price-Level Restatement—1968
Analysis of Expenses

12/31/68
R-9

	Historical	Conversion factor or source	Restated to 12/31/68 $'s
Selling and administrative expenses			
Amortization of prepaid expenses	40,000	R-4	42,292
Other	2,580,000	(1) 1.014	2,616,120
	2,620,000		2,658,412
(1) Spread fairly evenly throughout the year			
Gain or (loss) on sale of equipment			
Cost	300,000	R-5	340,376
Accumulated depreciation	120,000	R-6	136,151
	180,000		204,225
Proceeds, June 1968	241,000	1.019	245,579
Gain	61,000		41,354
Gain or (loss) on sale of marketable securities			
Cost	1,500,000	R-2 (1967, 8)	1,718,600
Proceeds, December 1968	1,600,000	1.000	1,600,000
Gain (loss)	100,000		(118,600)

XYZ COMPANY
General Price-Level Restatement—1968
General Price-Level Gain or Loss

12/31/68
R-10

	Source	12/31/67 Historical	12/31/67 Restated to 12/31/68 $'s	12/31/68 Historical (stated in 12/31/68 $'s)
Net monetary items				
Cash	R-2	1,700,000	1,766,300	2,120,000
Receivables	R-2	5,050,000	5,246,950	6,170,000
Current liabilities	R-2	(4,770,000)	(4,956,030)	(2,521,000)
Long-term debt	R-2	(5,000,000)	(5,195,000)	(4,700,000)
		(3,020,000)	(3,137,780)	1,069,000

General price-level gain or loss	Historical	Source	Restated to 12/31/68 $'s
Net monetary items—12/31/67	(3,020,000)	as above	(3,137,780)
Add:			
Current sales	26,880,000	R-8	27,256,320
Additions to deferred income	70,000	R-7	71,070
Proceeds from sale of equipment	241,000	R-9	245,579
Proceeds from sale of securities	1,600,000	R-9	1,600,000
	25,771,000		26,035,189
Deduct:			
Purchases	20,458,000	R-8	20,744,412
Selling and administrative expenses—other	2,580,000	R-9	2,616,120
Federal income taxes	630,000	R-3	638,820
Dividends	200,000	R-3	201,900
Purchases of property, plant, and equipment	800,000	R-5	815,500
Additions to prepaid expenses	34,000	R-4	34,140
	24,702,000		25,050,892
Net monetary items—historical—12/31/68 (as above)	1,069,000		
Net monetary items—restated—12/31/68 (if there were no gain)			984,297
Net monetary items—12/31/68 (as above)			1,069,000
General price-level gain			84,703

APPENDIX D

General Price-Level Changes and Specific Price Changes

General price-level statements deal with changes in the general purchasing power of money. Adjustments for changes in the specific prices of nonmonetary assets and liabilities either by use of market prices or specific indexes, on the other hand, deal with changes in market or replacement values. Restatement for general price-level changes does not attempt to deal with specific market price changes; adjustments for specific price changes do not deal with the effects of inflation as such. The effects of general price-level changes and specific price changes may be dealt with separately or they may be dealt with simultaneously. Dealing with one is not a substitute for dealing with the other. Restatement for general price-level changes is appropriate if the effects of inflation are important, regardless of whether or not specific price changes are recognized currently. The effects of inflation are not treated if only specific price changes are recognized.

The following illustration shows the differences between recognition of general price-level changes and specific price changes.

Four different bases of accounting are illustrated:

1. Historical cost, not restated for general price-level changes.
2. Historical cost restated for general price-level changes (the method covered in this Statement).

3. Current value, not restated for general price-level changes.
4. Current value, restated for general price-level changes.

The illustration brings out the following points:

A. In the income statement
    1. General price-level restatement changes the amounts but not the timing of revenue, expenses, gains, and losses.
    2. Specific price adjustments (without general price-level restatement) change the timing of recognition of revenue, expenses, gains, and losses, but not the amounts.
    3. Recognition of changes in both specific prices and in the general price level (1) changes the timing of recognition of revenue, expenses, gains, and losses and (2) changes the amounts.

B. In the balance sheet
    1. General price-level accounting presents restated historical cost.
    2. Specific price adjustments present assets at current market value or replacement cost or approximations of them.

Information for Illustration

Land was purchased in year 1 for $20,000. Market price did not change in year 1.

Land was held during year 2, during which market price advanced to $26,000.

Land was sold for $34,000 at the end of year 3.

GNP Deflator indexes:

Year 1	100
Year 2	110
Year 3	120

	Historical Cost		Current Value	
	Not restated (Col. 1)	Restated (Col. 2)	Not restated (Col. 3)	Restated (Col. 4)
Balance sheet amount of land				
End of year 1	$20,000	$20,000	$20,000	$20,000
End of year 2	$20,000	$22,000	$26,000	$26,000
Year 3 before sale	$20,000	$24,000	$34,000	$34,000
Income statement gains reported				
In year 1	$ –0–	$ –0–	$ –0–	$ –0–
In year 2	–0–	–0–	6,000	4,000(1)
In year 3	14,000	10,000	8,000	5,640(2)
Total gains for 3 years	$14,000	$10,000	$14,000	$10,000(3) (year 3 dollars)

Notes

(1) Market price, end of year 2 $26,000

Restated market from year 1: 20,000 x 110/100 = 22,000

Gain from appreciation $ 4,000

(2) Selling price, year 3 $34,000

Restated market from year 2: 26,000 x 120/110 = 28,360

Gain from sale $ 5,640

(3) The $4,000 gain in year 2 must be restated to year 3 dollars.

Total gain:

Year 2 appreciation—		
In year 2 dollars	$4,000	
In year 3 dollars	$4,000 x 120/110	$ 4,360
Year 3 sale		5,640
Total in year 3 dollars		$10,000

Comments

1. Column (1) is presented in accordance with present generally accepted accounting principles. Column (2) is presented in accordance with the recommendations of this Statement.

2. Columns (3) and (4) are not discussed in this Statement. They are presented for illustrative purposes only.

3. The restated historical cost balance sheet (column 2) preserves the cost basis. It does not result in presenting assets at market value or the recognition of unrealized gains or losses.

4. Restating the income statement for changes in the general price level changes the amount but not the timing of gains and losses. Recognizing current values changes the timing but not the amount of gains and losses in the income statement. Thus, in the illustration:

   a. In the historical cost column (1 and 2), the timing of the gains is the same, but the amounts differ ($14,000 and $10,000).

   b. In the current value columns (3 and 4), the timing of the gains is the same, but the amounts differ ($14,000 and $10,000).

   c. In the unrestated columns (1 and 3), the total gain is the same ($14,000), but the timing and description of the gains are different.

   d. In the restated columns (2 and 4), the total gain is the same ($10,000), but the timing and description of the gains are different.